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FOR PUBLIC AFFAIRS SERVICE

PROGRAM ABC World News Tonight

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CITY Washington, D.C.

SUBJECT Rewald Convicted of Swindle

PETER JENNINGS: A former investment counselor claiming ties to the CIA is convicted of a multimillion dollar swindle, when we come back.

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JENNINGS: In Honolulu last night, a former investment counselor named Ronald Rewald was found guilty on 94 counts of fraud, perjury, and tax evasion. His trial had lasted eleven weeks. He could now face up to 400 years in prison.

Those facts alone are enough to make the Rewald case worth noting. But as ABC's Jack Smith reports, there is a good deal more.

JACK SMITH: It is a story about this man, Ronald Rewald, about his conviction for fraud and about his connections with the Central Intelligence Agency. It includes money, sex, arms deals, and more secret documents than the CIA has ever revealed, all of it worthy of a James Bond novel.

Rewald was found guilty in federal court here in Hawaii of swindling 400 investors out of \$20 million. He ran an investment firm based in downtown Honolulu, Bishop, Baldwin, Rewald, Dillingham and Wong. But he spent the investors' money on ranches, luxury cars, and, although he was married, even paid nearly \$300,000 to women for sex and companionship. He lived like a millionaire from the money he fleeced from gullible investors, like Teresa Black, who gave him the insurance money she got after her family died in an accident.

REPORTER: Was it your whole life's savings that you

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lost?

TERESA BLACK: Yes. That was all I had.

SMITH: In court, she and 38 others told similar stories. Lori Sutton, a widow dying of cancer. Chester Owen, a blind retiree. Bea Borkanhagen, confined to a wheelchair and a friend of Rewald's parents. He swindled her as well.

It would have stayed a local story here in Hawaii, but Rewald also did some work for the CIA. According to the agency, he was just a local businessman who volunteered his firm as cover for a handful of agents. But according to Rewald in a sworn affidavit, his firm was actually controlled by the CIA and he was a covert agent who carried out secret missions and some illegal arms deals worldwide.

RONALD REWALD: I certainly don't deny the fact that I was a covert agent. And I don't deny the fact that I was running that portion of Bishop Baldwin that involved the agency.

SMITH: Rewald was also convicted of perjury.

The story aroused strong interest in the news media. ABC News reports about Rewald's claims last year, though, provoked an unprecedented complaint by the CIA to the Federal Communications Commission, a complaint the FCC later dismissed.

In court, prosecutor Ted Greenberg called the Rewald story preposterous. There was testimony not only from investors, but also from CIA employees that they never created or operated Rewald's firm, and documents that showed Rewald got less than \$3000 from the agency for phone and telex bills. Nothing more.

Rewald would not take the stand in his own defense, nor could his attorneys produce many CIA documents to back up his claims, documents that have been sealed from public view. Trial Judge Harold Fong ruled most of them irrelevant because they showed no CIA involvement in Rewald's firm.

Nevertheless, the trial did raise embarrassing questions about the agency's competence. A cursory CIA check on Rewald in 1979, for instance, turned up a prior conviction for swindling. This raised danger signals, in the words of one CIA document, but the agency still went ahead and used him.

In court, prosecutor John Payton admitted to the jury serious errors in judgment on the part of some people at the CIA.

When the agency later requested an assessment of Rewald,

the CIA's Hawaii office cabled back a glowing report. Rewald, it said, was a winner, a man with clients like Elvis Presley, and a businessman who sets high standards of moral conduct.

On the stand, John Kinche, who wrote that cable, said, "I believed I could read people quite well." He was one of nearly a dozen agency employees who invested in Rewald's scam, and he wept as he described how he'd lost his life savings.

When Rewald finally came under scrutiny by the IRS, documents show the agency initially tried to protect him. Why? Because this cable from the agency's Hawaii office described Rewald as an important agent, passing funds to individuals in the Middle East and elsewhere for some ongoing operations.

Jack Reardon, the CIA chief in Hawaii who wrote the cable, said Rewald told him he was a top agent, and he didn't know any better because he had no access to the agency's covert side. "I trusted Mr. Rewald," stammered Reardon, who also lost money in Rewald's scam.

Prosecutors told the jury the CIA turns out to be the biggest patsy in this case. And that is what the jury believed.

As a result of the Rewald fiasco, the CIA fired one of its agents and reprimanded at least one other.

As for the CIA's office here, the agency recently shut it down.